



GROCERY MANUFACTURERS OF AMERICA
MAKERS OF THE WORLD'S FAVORITE BRANDS OF
FOOD, BEVERAGES, AND CONSUMER PRODUCTS

**STATEMENT OF
C. MANLY MOLPUS
PRESIDENT AND CEO
GROCERY MANUFACTURERS OF AMERICA**

**BEFORE THE
COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES**

**REGARDING
REVIEW OF MULTILATERAL AND BILATERAL AGRICULTURAL TRADE
NEGOTIATIONS**

MAY 19, 2004

Good afternoon, Chairman Goodlatte and Ranking Member Stenholm and Members of the Committee. It is a pleasure to be here today on behalf of the Grocery Manufacturers of America (GMA) to offer our views on the status of multilateral and bilateral free trade negotiations. GMA strongly supports these negotiations, which we believe will yield significant benefits for the food industry in terms of new opportunities for exports and increased access for imports of key raw materials.

GMA is the world's largest association of food, beverage and consumer product companies. Led by a board of 42 Chief Executive Officers, GMA applies legal, scientific and political expertise from its more than 140 member companies to vital public policy issues affecting its membership. The association also leads efforts to increase productivity, efficiency and growth in the food, beverage and consumer products industry. With US sales of more than \$500 billion, GMA members employ more than 2.5 million workers in all 50 states.

Overview of Processed Foods and Agricultural Exports

The processed food industry remains a significant and increasingly important component of the agricultural sector. In fact, consumer food exports now account for a higher percentage of US agricultural exports than bulk commodities, making them a key export gateway for many farm products. Moreover, exports of processed food products deliver greater related economic benefits to rural communities than the export of commodities alone. For example, each dollar in exports of processed food products generates an additional \$1.57 in domestic economic activity as compared to \$0.81 for commodities. Similarly, every \$1 billion of exports of processed food products supports 16,700 jobs, whereas the same dollar value of exports of commodities supports 12,700 jobs.

Unfortunately, tariffs on processed food products remain among the highest in the agricultural sector. Although Uruguay Round commitments required countries to cut tariffs by an average of 36 percent, the high tariffs facing the processed food sector were left relatively unchanged. There are several reasons for this result. First, since countries were only required to make simple average tariff cuts, they naturally chose to take the largest cuts on already low tariffs (e.g., reducing a 4 percent tariff by 50 percent) and only the minimum cut (10 percent or 15 percent) on higher tariffs. Additionally, in many countries tariffs on agricultural products often increase with the level of processing, resulting in significant tariff escalation for many processed food items. Finally, the Uruguay Round tariffication process created a tariff-rate quota (TRQ) system for many sensitive products (for example, sugar, dairy, and peanuts) that are the key ingredients in many processed food products. As a result, processed food products often face complex and prohibitively high tariff structures that not only assess a duty on the product itself but on its ingredients by weight and composition as well.

In addition to these tariff barriers, the processed food sector also faces numerous non-tariff barriers that hamper exports globally. Examples of these types of barriers are unjustified mandatory labeling policies, burdensome export requirements and dissimilar standards for packaging and labeling. These barriers are proliferating most notably in the

European Union and are often exported from the EU to other countries around the world, as in the case of mandatory labeling for agricultural biotechnology.

GMA Goals for Trade Negotiations

GMA has a consistent set of goals for all trade negotiations. Of utmost importance is achieving maximum market access for food, beverage and consumer products through the rapid reduction of tariffs, the expansion of tariff-rate quotas and the elimination of non-tariff barriers to trade. GMA also looks to secure increased access to key ingredients such as sugar, dairy and peanuts to enhance the competitiveness of US manufacturers of food products. Finally, trade negotiations help to ensure a competitive business environment for US investors and exporters through improved rules on investment, distribution and intellectual property rights.

World Trade Organization (WTO) Negotiations

Framework Agreement on Agriculture

GMA believes that of all the negotiations in which USTR is engaged, the WTO negotiations offer the best opportunity for meaningful trade liberalization in food and agriculture products. We were deeply disappointed by the collapse of the Cancun Ministerial and believe that the best chance for any real progress in the WTO lies with achieving a framework agreement by the next General Council meeting in July.

In the agriculture negotiations, it appears that the major outstanding issue remains finding consensus on the market access formula. Given the tariff profile (peaks and escalation) that characterize the barriers to trade in food products, GMA strongly supports a formula for tariff reductions that cuts higher tariffs faster than lower ones and harmonizes all tariffs to the already low US schedule. Ambition in tariff reductions is a priority for GMA and, as such, we support any tariff formula that affords maximum market access globally.

We are concerned, however, that the US-supported “blended” formula (part Swiss/part Uruguay Round) might not deliver the ambitious results that our industry needs. For example, the combination of formulas could produce a result where countries apply only minimal (Uruguay Round) cuts to the highest tariffs. Not only would this leave tariff peaks relatively unchanged, but it also could have the adverse effect of creating inverted tariffs globally by leaving the high tariffs on ingredients while reducing the tariffs on finished products. In this instance, global manufacturers would have difficulty sourcing ingredients while facing increased competition on finished food items.

The blended formula could also allow major developed countries (for example, Japan, EU, and Canada) to shelter their most sensitive commodities from any meaningful liberalization. It is likely that developing countries would reciprocate by refusing to open their markets in return. As a result, the blended formula could result in less ambition overall, even though it includes the Swiss formula, which is designed to produce the most aggressive tariff cuts.

GMA believes that a solution can be found by either accepting a banded approach or altering the blended formula to strictly define the number of products that would be subject to the Uruguay Round formula. All formulas should also clearly specify that any products that receive minimal tariff cuts must be subject to a proportionate expansion of tariff-rate quotas. GMA urges negotiators to consider a variety of approaches that would result in the maximum reduction of all tariffs by the July deadline for a framework agreement.

Geographical Indications (GIs)

Prior to the Cancun Ministerial, the European Union placed enormous emphasis on commencing new negotiations on geographical indications, so that they would have something to “take back to their producers” as compensation for commitments in the agriculture negotiations. Since the collapse in Cancun, however, the EU has been conspicuously silent on their GI demands. In recent meetings at the WTO, GMA learned that while the EU had not made any new proposals on geographical indications, they remain committed to their earlier objectives and have continued to raise the issue in the Trade Related Intellectual Property (TRIPS) Council and the Trade Negotiating Committee meetings.

In the agriculture negotiations, the EU continues to demand “absolute protection” for a determined list of geographical indications regardless of whether these products are generic (e.g.; cheddar, parmesan, Dijon mustard, etc.) or whether there is an existing trademark on the product. The EU also continues to insist on new negotiations on the extension of protections for wines and spirits to all products.

GMA remains adamantly opposed to new negotiations on GIs. We believe that sufficient rules already exist to guarantee that GIs are protected and that new commitments in this area are not needed. New rules may only serve to confuse consumers and represent a direct threat to trademarks and brands that are essential to the future growth of the food industry. Concessions on GIs will likely have enormous negative consequences for food and agriculture groups as well as for a wide variety of industries that rely on strong intellectual property protections to market their products globally. GMA believes the limited references to geographical indications in the Cancun text are sufficient and should not be changed in any way to imply consensus on new negotiations under the Agriculture, Implementation, or TRIPS Committees.

Recently Concluded Negotiations

Goals for Regional and Bilateral Negotiations

GMA goals for the regional and bilateral negotiations are largely consistent with those for multilateral negotiations. In addition, we believe that these negotiations must be comprehensive, meaning that all products must be subject to meaningful liberalization. Exempting sectors, even politically sensitive sectors, will not only hurt US manufacturers and consumers who rely on imports, but will disadvantage the export opportunities for competitive agricultural sectors. Removing products or sectors ultimately undermines the value of the agreement to all exporting sectors. For these reasons, GMA strongly

supports the US-Central American Free Trade Agreement (FTA) and does not support the US-Australia FTA.

US-Central American Free Trade Agreement (CAFTA)

Food, beverage and consumer products currently face an average *ad valorem* duty of 15% into the CAFTA countries and 20 percent into the Dominican Republic. Some GMA products like cheese and yogurt face prohibitive tariffs well in excess of 60 percent in many CAFTA countries. Under this FTA, many of these duties will be eliminated immediately, most within 15 years and a very few dairy products will receive duty free treatment in 20 years. In addition, all products are covered by the agreement.

These market access commitments will yield meaningful benefits to GMA companies. A recent GMA-sponsored study by the International Trade Services Corporation estimates that the potential savings from the tariff reductions and quota expansion alone will be nearly \$8.8 million in the first year of the agreement. This figure grows to nearly \$28 million annually upon full implementation of the agreement.

The study also measures the potential aggregated increase in GMA exports to the five Central American countries and the Dominican Republic one year after the elimination of tariffs on GMA priority products. The trade flow analysis suggests that upon elimination of tariffs, GMA exports could increase from \$359 million to \$662 million annually – an 84 percent increase over current exports to the region. GMA also expects to see strong growth in particular sectors as a result of the agreement. For example, we predict that exports of snack foods, confectionary products, and soups could nearly double to about \$30 million annually in each category as a result of the CAFTA.

Although we are excited about these new export opportunities, GMA also supports the CAFTA because it will provide new avenues for imports of key ingredients for food processors. For example, under the agreement the US peanut tariff will be phased out over a 15-year period, with an initial TRQ of 10,000 metric tons (mt) for Nicaragua and 500 mt for El Salvador. US manufacturers will also have access to an additional 153,140 tons of sugar in year 15 of the agreement. GMA regrets that the over-quota tariff on sugar will never be reduced or eliminated, the only tariff under this agreement that will be preserved. We are pleased, however, that the sugar quota will continue to grow at two percent annually. The additional access to peanuts and sugar, although modest, will help to increase the competitiveness of US companies vis-à-vis other manufacturers who have access to lower cost raw materials.

Ongoing Negotiations

Free Trade Area of the Americas (FTAA)

As you are aware, Trade Ministers agreed to develop a two-tiered FTAA at the November Miami Ministerial. Under this new structure, all countries will agree to a common set of rights and obligations. Others may also negotiate a higher standard pluralateral agreement, which will be modeled on US bilateral free trade agreements. GMA questions whether the two-tiered FTAA will yield meaningful new market access in the Hemisphere, given that countries will be likely to limit tariff concessions in order

to provide an incentive for more comprehensive commitments in other negotiation areas such as services or intellectual property rights in the pluralateral agreement. While we continue to support a high-standard, comprehensive FTAA, we wonder whether this might be better achieved through the integration of the many bilateral and regional free trade agreements in the Hemisphere. To this end, we recommend that all agreements in the Hemisphere contain consistent rules of origin for ease of future integration.

Future Negotiations

GMA supports all future bilateral and regional free trade negotiations, provided that they are comprehensive and achieve high standards in all negotiating groups. In many ways bilateral and regional negotiations allow for a greater integration of markets and provide the opportunity to enhance existing WTO commitments in key areas such as intellectual property rights and services. Following, please find comments on select future agreements.

US-Andean Free Trade Agreement and US-Panama Free Trade Agreement

GMA supports new negotiations with the Andean countries and Panama, which are strong and growing markets for US food, beverage and consumer products. For example, Colombia is the largest export market in the Central and South America for food and agricultural products. In addition, although a small country, Panama is a stable economy with one of the highest per-capita gross domestic products in the region. Panama's economy is primarily service oriented and, as a result, roughly 84 percent of food products in Panama are imported. Average tariffs in the Andean region and Panama are 20 percent. Immediate elimination of these duties is a priority for GMA in the negotiations.

US-Thailand Free Trade Agreement

GMA strongly supports the US-Thailand FTA negotiations. Exports of consumer-oriented food and agriculture products to Thailand have increased dramatically in the last four years, from less than \$51 million in 1999 to over \$81 million in 2003. As tourism rebounds and incomes rise, we expect this exponential growth to continue. Within the consumer-oriented category, some products that experienced substantial growth rates over the 1999-2003 period include breakfast cereals, red meats, dairy products and pet foods.

There are, however, significant tariff and non-tariff barriers that hamper US exports to Thailand. Most onerous are the extremely high tariffs on processed food products, ranging between 40 and 50 percent on many items. Eliminating these tariffs over the shortest time practicable is a key GMA goal for the negotiations. In addition, there are many non-tariff barriers to trade in Thailand such as restrictive import procedures and burdensome testing requirements that we hope to have addressed in the negotiations.

Sugar Access

Thailand, Colombia and Panama are all major sugar exporters, and GMA supports inclusion of sugar in all of these agreements. We remain concerned that the exclusion of sugar could have devastating results on the overall level of ambition of the agreements.

All future FTA partners have many sensitive agriculture sectors and will not hesitate to limit our exports if we exclude sugar. In addition, given the importance of sugar exports to the region, we are concerned that limitations on sugar imports to the US could limit commitments in other areas such as services and intellectual property rights, as was the case in the US-Australia FTA. We firmly believe that the exception granted for sugar in the US-Australia FTA must be viewed as an unfortunate exception and not the rule for bilateral free trade agreements.

Conclusion

Thank you for the opportunity to present our views this afternoon. GMA believes that it is of critical importance to farmers and manufacturers alike to continue to expand market access through reduced tariffs and the elimination of barriers to trade for food and agricultural products. We are very optimistic about the chances for meaningful trade reform for the processed food sector, which will lead to increased choice and more affordable food for consumers globally. I look forward to answering any questions.